

## Growing Canada's Rental Market—Part 1

- Years of rising home prices have driven national homebuyer affordability to its worst level in a generation. Strains are most pronounced in Vancouver and Toronto, but are becoming more evident in a number of other cities, primarily in BC and the Greater Golden Horseshoe. We expect affordability to deteriorate further in 2018–19 alongside rising borrowing costs and new mortgage rule changes.
- Growing the rental market is one potential solution to increasing affordability pressures in Canada's priciest urban markets. From a pure shelter cost perspective, renting would appear to be a good alternative to buying for many households. This will require a shift in mentality from the primacy of homeownership to a greater acceptance of renting as a long-term housing choice.

### GENERATIONAL AFFORDABILITY SQUEEZE

Nationally, homebuyer affordability in Canada is near its worst level in a generation. Mortgage principal and interest costs to purchase an average priced home currently absorb almost 37% of median household income, near its highest share in close to three decades<sup>1</sup> (chart 1). Condominiums remain a more accessible option for buyers, but still consume over 30% of household income.

This national aggregate masks significant regional differences. Affordability strains are most pronounced in Toronto and Vancouver, Canada's most expensive housing markets. However, they are becoming more evident in a number of other cities, including Victoria, Surrey, Oakville, and Hamilton, where home prices are above the national average and have recorded strong appreciation in recent years. Meanwhile, affordability remains relatively good in many large centres such as Ottawa, Montreal, and Calgary.

This metric of homebuyer (un)affordability is set to deteriorate further in 2018–19 as borrowing costs drift up. More stringent stress tests for uninsured mortgages effective January 1, 2018 also will exert a drag on affordability. It is estimated that about 10% of current loan applications would no longer qualify under the new rules.

If affordability pressures and shifting market sentiment lead to a notable slowing in sales or rise in listings, average prices could adjust lower, supporting affordability. However, we believe there is a greater likelihood that average home prices will continue to edge higher, as demand and valuations remain well supported by strong fundamentals, including low unemployment, a growing population, high immigration levels, rising density and land costs, and foreign capital inflows. After a temporary downward correction following a series of policy changes last year, Vancouver home prices are on the rise again. The recent softening in GTA home prices in the wake of Ontario's policy changes is showing signs of stabilizing.

<sup>1</sup>Our affordability calculation is based on the MLS national average resale price, assuming a 20% downpayment, a 25-year amortization, and the average of the prime rate and the 5-year conventional mortgage rate.

### CONTACTS

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Chart 1

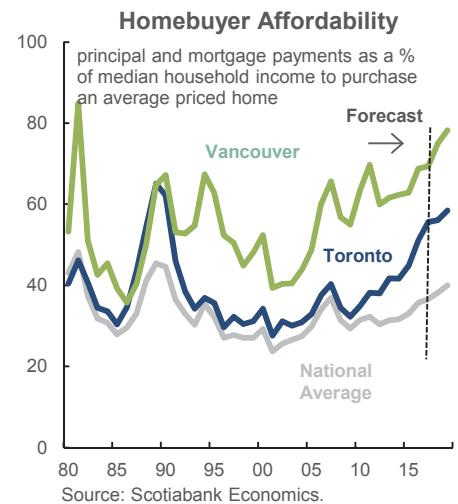
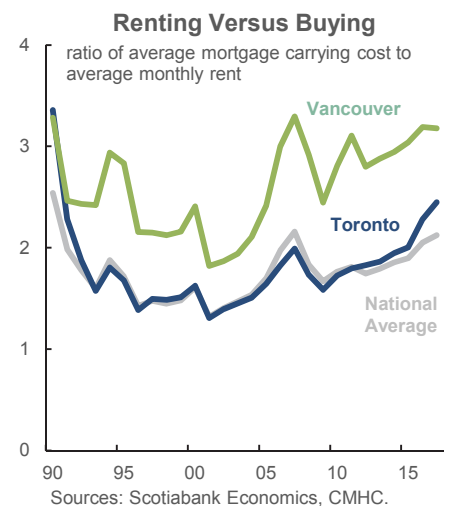


Chart 2



Canada's housing affordability challenge will not be easily resolved. Average home prices in Toronto and Vancouver would need to drop by about 30% and 25%, respectively, in order to bring mortgage carrying costs relative to household income back to their respective long-term averages of 38% and 54%. Conversely, it would take at least 10 years of stagnant home prices and moderate income growth at prevailing interest rates to arrive at the same result.

We do not think either of the above outcomes is likely. Over the medium- and longer-term, population growth, rising density and land costs, and foreign capital inflows are expected to continue to put upward pressure on home prices in many of Canada's largest urban centres. Alternatives to homeownership will need to be considered as a housing solution for some cities.

### EXPANDING RENTAL PART OF THE AFFORDABILITY SOLUTION

Growing the rental market is one potential solution to increasing affordability pressures in Canada's priciest urban markets. From a pure shelter cost perspective, renting would appear to be a good alternative to buying for many households. House price appreciation has significantly outpaced rent growth since the early 2000s, driving the ratio of mortgage carrying costs relative to rents to its highest level since 1990 (chart 2). The gap is especially wide in Vancouver, where monthly mortgage costs for buyers are more than three times average rents.

A shift will need to happen in mentality from the primacy of homeownership to a greater acceptance of renting as a long-term housing choice, however, for renting to become a viable option. Homeownership remains the overwhelming preference of the majority of Canadian households, with almost 68% choosing this option over renting in 2016 (chart 3). Even in high-priced markets such as Vancouver and Toronto, 63.7% and 66.5%, respectively, of households were homeowners.

Canadian homeownership rates are high from an international perspective. In a survey of homeownership rates across 34 large global cities, we found that Canadian cities ranked among the top, well above San Francisco (56%), New York (50%), London (50%), Los Angeles (47%), and Berlin (15%). While cities with a high price-to-rent ratio typically have a higher propensity to rent (chart 4), there is evidence of a national bias toward renting or owning, perhaps due to cultural preferences or differences in regulatory frameworks across countries.

Chart 3

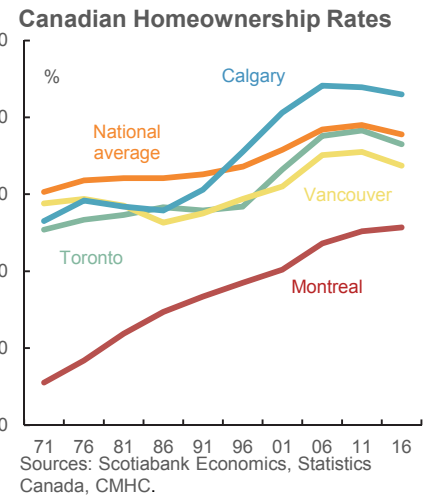
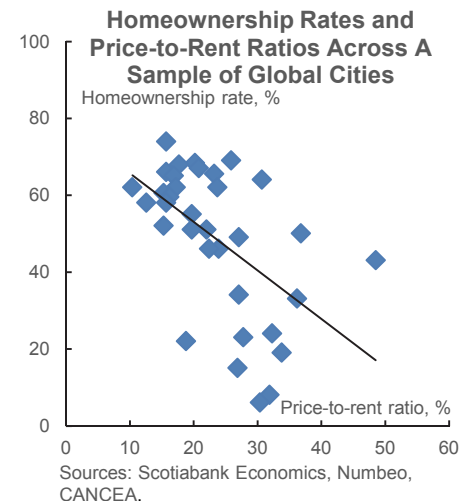
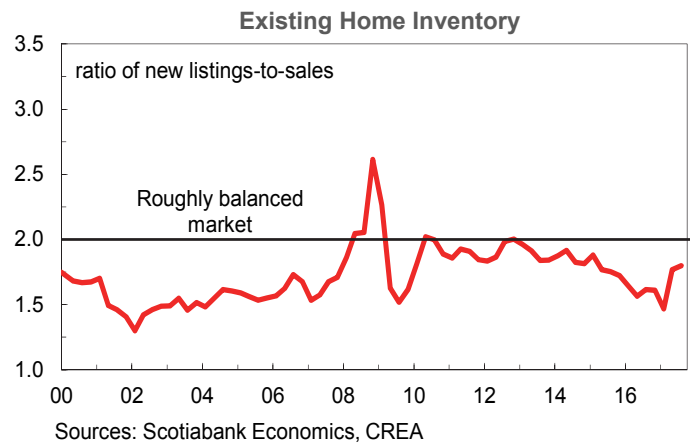
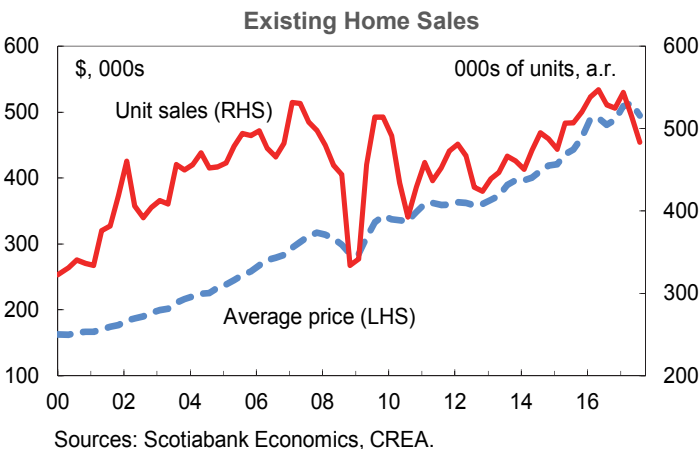
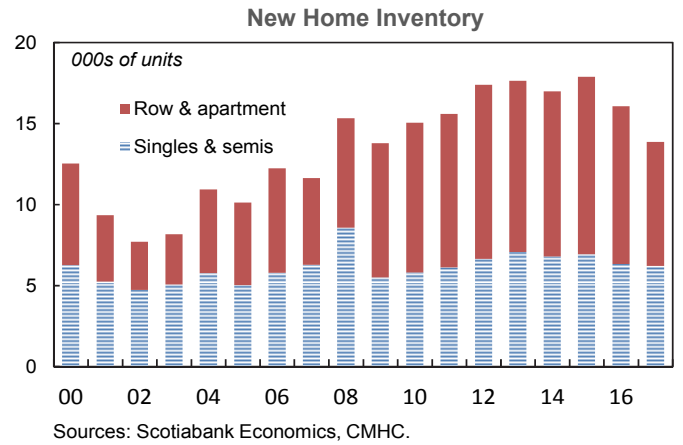
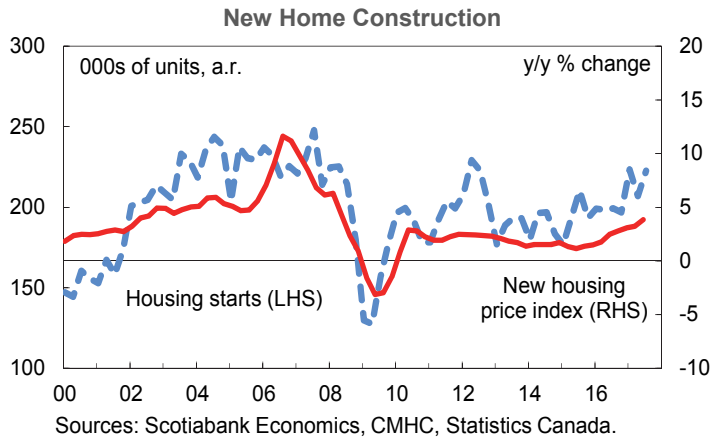


Chart 4



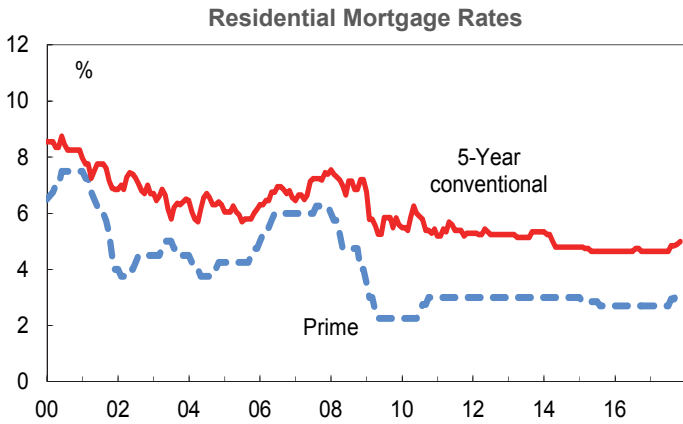
**CANADIAN RESIDENTIAL MARKETS**



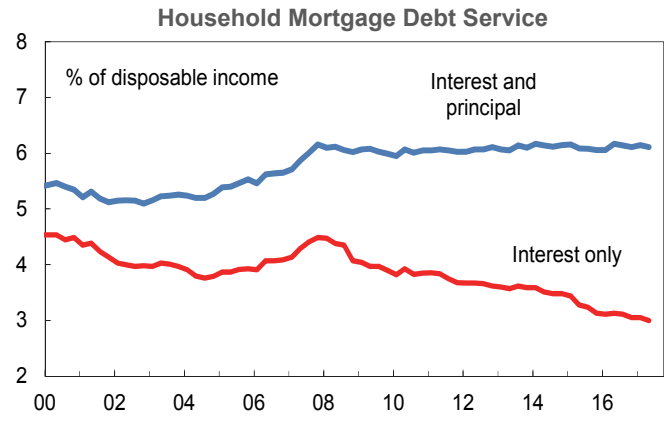
Housing Starts								
	Canada	B.C.	Alberta	Sask.	Manitoba	Ontario	Quebec	Atlantic
<i>(000s units, sa)</i>								
2010	190	26	27	6	6	60	51	13
2011	194	26	26	7	6	68	48	13
2012	215	27	33	10	7	77	47	13
2013	188	27	36	8	7	61	38	10
2014	189	28	41	8	6	59	39	8
2015	196	31	37	5	6	70	38	8
2016	198	42	25	5	5	75	39	8
2017ytd	218	41	29	5	8	82	44	8
2017f	214	40	29	5	8	81	42	8
2018f	198	38	28	5	6	74	39	8
2019f	188	35	28	5	6	70	37	8
<i>(units, nsa)</i>								
	<b>Vancouver</b>	<b>Calgary</b>	<b>Edmonton</b>	<b>Toronto</b>	<b>Ottawa</b>	<b>Montreal</b>	<b>Halifax</b>	<b>St. John's</b>
2010	15,217	9,262	9,959	29,195	6,446	22,001	2,390	1,816
2011	17,867	9,292	9,332	39,745	5,794	22,719	2,954	1,923
2012	19,027	12,841	12,837	48,105	6,026	20,591	2,754	2,153
2013	18,696	12,584	14,689	33,547	6,560	15,632	2,439	1,734
2014	19,212	17,131	13,872	28,929	5,762	18,672	1,757	1,230
2015	20,863	13,033	17,050	42,287	4,972	18,744	2,599	985
2016	27,914	9,245	10,036	39,027	5,298	17,834	2,305	833
2017ytd	23,879	11,214	11,950	41,307	7,049	21,077	6,430	673

Sources: Scotiabank Economics, CMHC. Year-to-date data are expressed at seasonally adjusted annual rates.

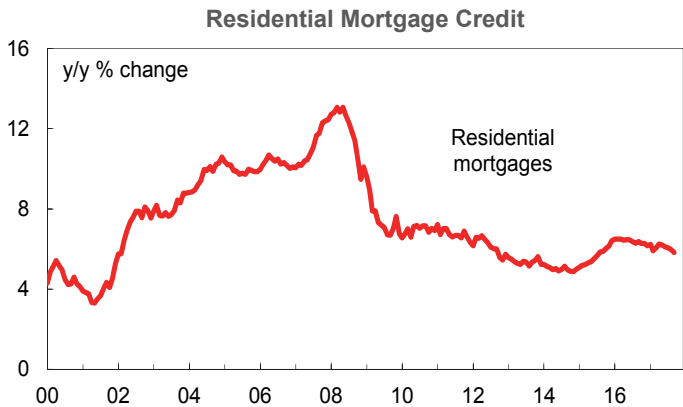
**CANADIAN RESIDENTIAL MARKETS**



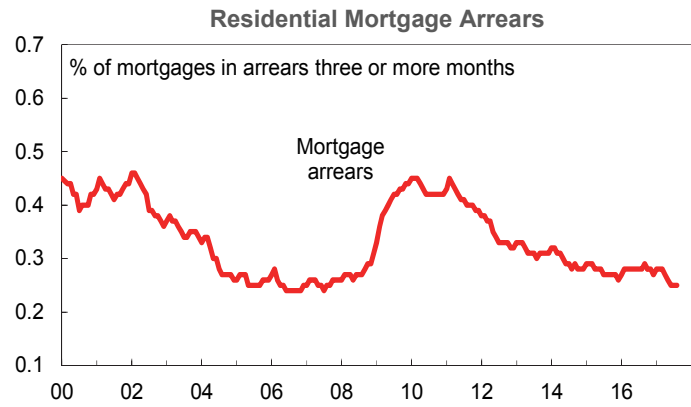
Sources: Scotiabank Economics, Bank of Canada.



Sources: Scotiabank Economics, Statistics Canada.



Sources: Scotiabank Economics, Bank of Canada.



Sources: Scotiabank Economics, CBA.

**Home Sales**

	Canada		British Columbia		Alberta		Man.-Sask.		Ontario		Quebec		Atlantic	
	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units
<b>2010</b>	339,701	437,206	505,511	74,555	352,488	50,030	232,270	23,885	343,679	185,840	242,257	80,024	192,406	22,439
<b>2011</b>	362,158	455,960	561,271	76,727	353,413	54,157	247,809	26,912	364,500	197,664	254,207	77,164	200,914	22,893
<b>2012</b>	363,128	451,050	514,849	67,634	363,340	60,590	262,723	27,602	383,501	194,625	264,096	77,372	208,305	22,769
<b>2013</b>	382,207	454,005	537,428	72,936	380,968	66,092	275,235	27,160	401,979	195,026	267,646	71,194	209,693	21,161
<b>2014</b>	407,392	477,706	568,391	84,054	400,588	71,788	282,973	27,530	429,771	202,478	271,212	70,620	209,280	20,778
<b>2015</b>	442,041	503,428	636,607	102,514	393,134	56,478	283,405	26,301	463,455	221,713	275,207	74,122	207,958	21,799
<b>2016</b>	490,030	535,214	691,111	112,211	394,513	52,167	287,485	25,895	534,848	242,720	283,306	78,146	205,405	23,465
<b>2017ytd</b>	505,313	514,216	691,318	101,496	397,420	56,436	288,120	25,624	580,525	224,301	294,280	81,965	207,765	23,740

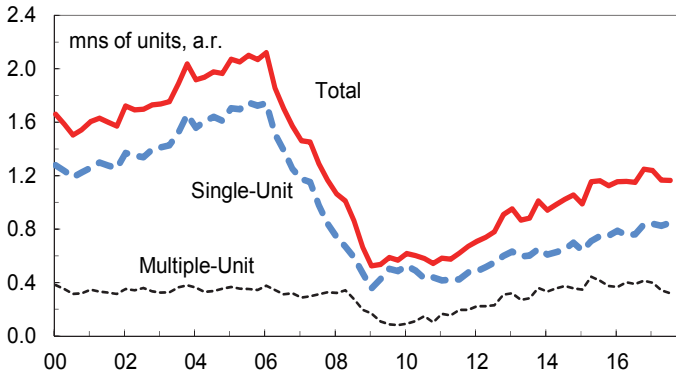
  

	Vancouver		Calgary		Edmonton		Toronto		Ottawa		Montreal		Halifax	
	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units
<b>2010</b>	675,853	31,144	398,764	20,996	328,803	16,403	432,264	88,214	328,439	14,586	294,602	42,298	250,871	5,782
<b>2011</b>	779,730	32,936	402,851	22,466	325,595	16,963	466,352	91,760	343,995	15,022	309,341	40,354	258,767	5,989
<b>2012</b>	730,063	25,445	412,315	26,634	334,318	17,641	498,973	88,157	352,175	14,695	322,148	40,086	268,692	6,081
<b>2013</b>	767,765	28,985	437,036	29,954	344,977	19,552	524,089	88,946	358,592	14,013	324,141	36,491	273,089	5,044
<b>2014</b>	812,653	33,693	460,584	33,615	362,657	19,857	566,491	93,278	362,525	14,122	331,772	35,753	273,983	4,749
<b>2015</b>	902,801	43,145	453,814	23,994	369,536	18,227	622,046	101,846	368,521	14,849	338,072	37,935	282,536	4,834
<b>2016</b>	1,017,228	40,880	463,047	22,522	369,365	16,990	729,591	113,725	374,586	15,617	349,793	39,926	286,967	5,151
<b>2017ytd</b>	998,760	35,709	467,179	23,997	375,067	18,884	817,369	95,787	390,000	17,232	366,527	42,447	287,764	5,307

Sources: Scotiabank Economics, CREA, QFREB. Year-to-date data are expressed at seasonally adjusted annual rates.

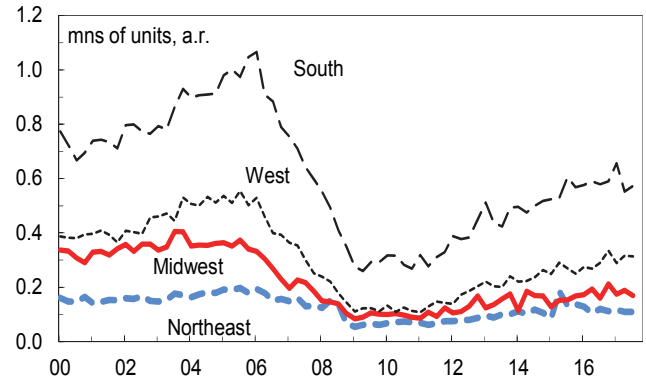
US RESIDENTIAL MARKETS

Housing Starts



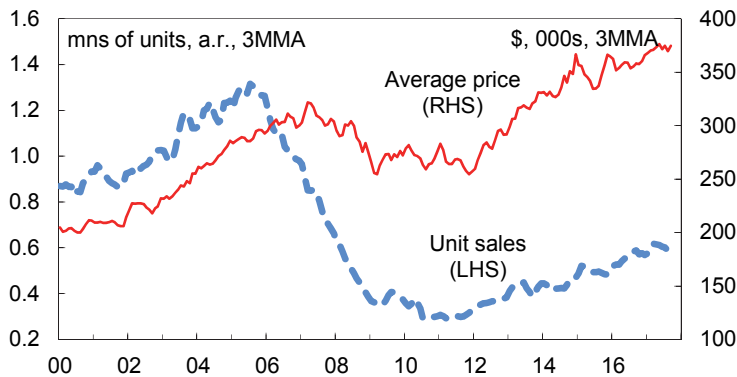
Sources: Scotiabank Economics, US Census Bureau.

Housing Starts by Region



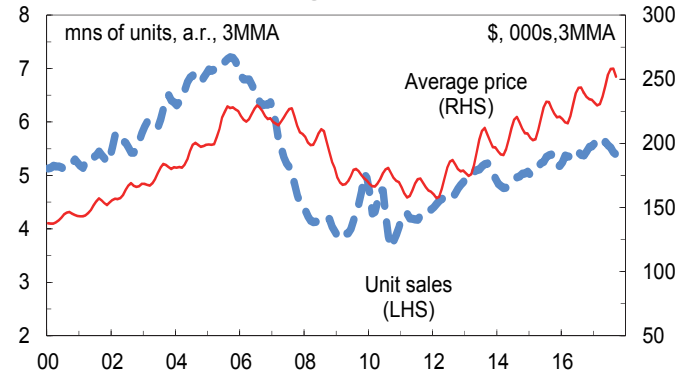
Sources: Scotiabank Economics, US Census Bureau.

New Home Sales



Sources: Scotiabank Economics, US Census Bureau.

Existing Home Sales



Sources: Scotiabank Economics, National Association of Realtors (NAR).

Housing Starts

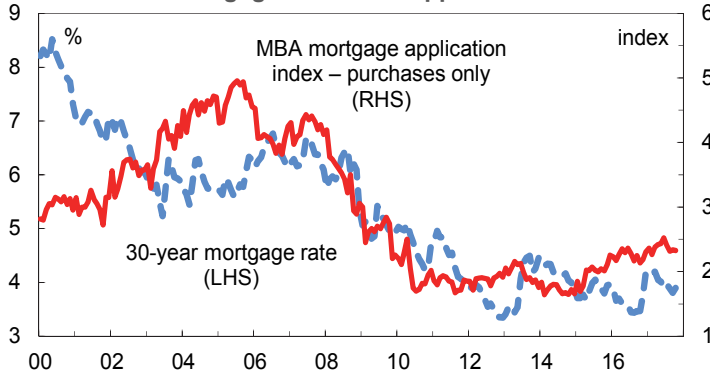
Permits

	Total	Singles	Multis	West	South	Midwest	Northeast	Total	Singles	Multis
	<i>(millions of units)</i>							<i>(millions of units)</i>		
<b>2010</b>	0.587	0.471	0.116	0.120	0.298	0.098	0.072	0.605	0.447	0.157
<b>2011</b>	0.609	0.431	0.178	0.133	0.308	0.101	0.068	0.624	0.418	0.206
<b>2012</b>	0.781	0.535	0.245	0.175	0.398	0.128	0.080	0.830	0.519	0.311
<b>2013</b>	0.925	0.618	0.307	0.215	0.464	0.150	0.097	0.991	0.621	0.370
<b>2014</b>	1.003	0.648	0.355	0.235	0.496	0.163	0.110	1.052	0.640	0.412
<b>2015</b>	1.112	0.715	0.397	0.266	0.556	0.153	0.138	1.183	0.696	0.487
<b>2016</b>	1.174	0.782	0.392	0.291	0.585	0.182	0.116	1.207	0.751	0.456
<b>2017ytd</b>	1.190	0.837	0.353	0.307	0.594	0.178	0.112	1.241	0.809	0.432
<b>2017f</b>	1.200									
<b>2018f</b>	1.250									
<b>2019f</b>	1.300									

Sources: Scotiabank Economics, US Census Bureau. Year-to-date data are expressed at seasonally-adjusted annual rates.

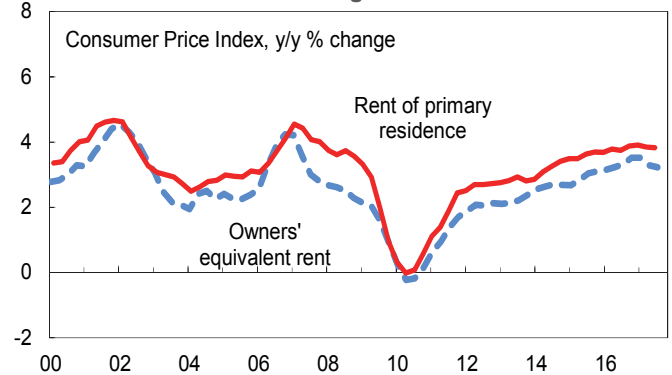
**US RESIDENTIAL MARKETS**

**Mortgage Rates and Applications**



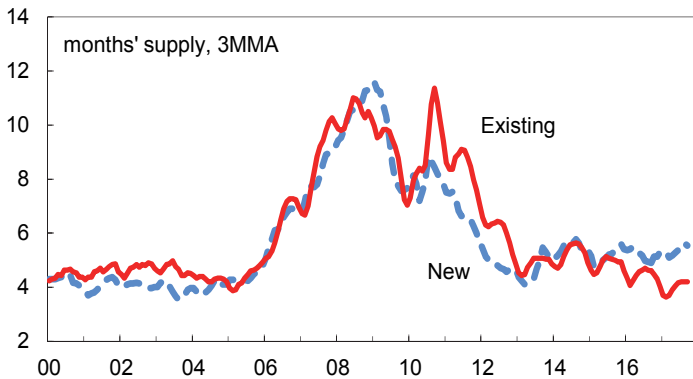
Sources: Scotiabank Economics, Mortgage Bankers Association (MBA), FHLMC.

**Housing Costs**



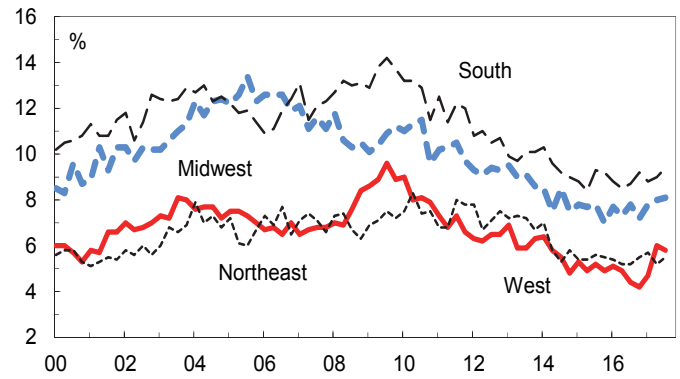
Sources: Scotiabank Economics, US Bureau of Labor Statistics.

**New and Existing Home Inventories**



Sources: Scotiabank Economics, US Census Bureau, National Association of Realtors (NAR).

**Apartment Vacancy Rates**



Sources: Scotiabank Economics, US Census Bureau.

**Existing Home Sales**

**New Home Sales**

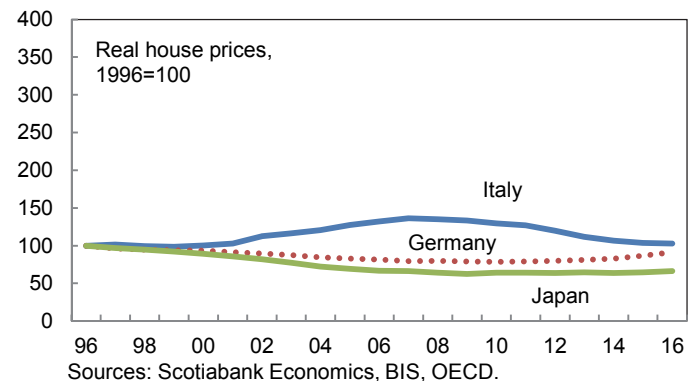
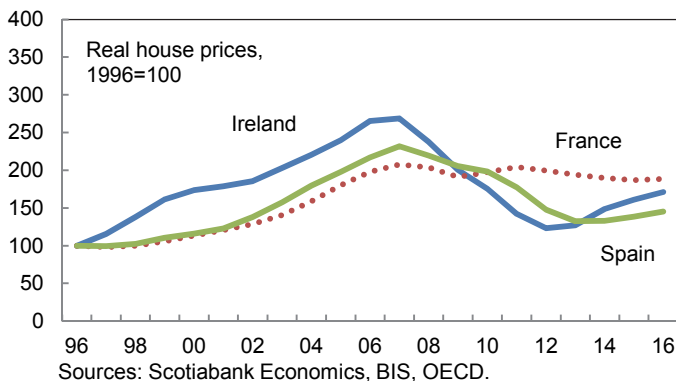
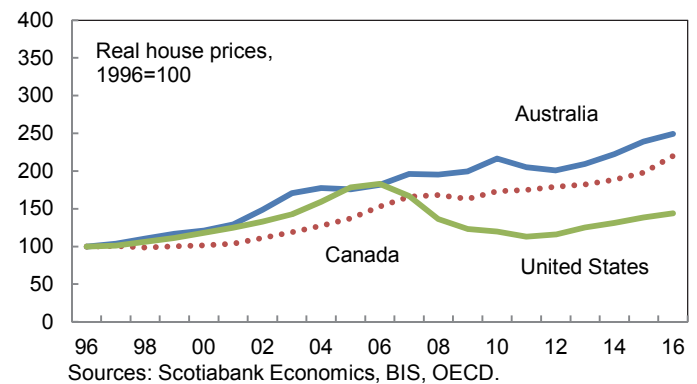
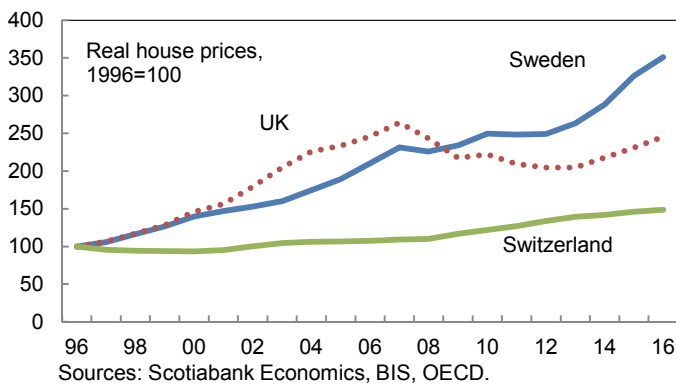
	Existing Home Sales							New Home Sales		
	Total	Avg Price	Months' Supply	West	South	Midwest	North East	Total	Avg Price (\$000s)	Months' Supply
	(sa)	(nsa)	(nsa)	(million units, saar, unless otherwise noted)						
<b>2010</b>	4.190	220.0	9.4	1.080	1.630	0.910	0.570	0.321	271.5	8.0
<b>2011</b>	4.260	214.0	8.3	1.130	1.680	0.910	0.540	0.306	263.4	6.6
<b>2012</b>	4.660	225.4	5.9	1.160	1.840	1.070	0.590	0.368	285.4	4.8
<b>2013</b>	5.090	245.5	4.9	1.190	2.050	1.200	0.660	0.430	319.3	4.7
<b>2014</b>	4.940	255.3	5.2	1.100	2.050	1.140	0.640	0.440	341.8	5.5
<b>2015</b>	5.250	266.4	4.8	1.170	2.160	1.240	0.700	0.503	348.6	5.2
<b>2016</b>	5.450	276.0	4.4	1.190	2.220	1.300	0.740	0.561	359.3	5.2
<b>2017ytd</b>	5.526	287.0	4.0	1.228	2.277	1.288	0.733	0.609	372.4	5.3

Sources: Scotiabank Economics, National Association of Realtors (NAR), US Census Bureau.  
Year-to-date data are expressed at seasonally-adjusted annual rates.

**INTERNATIONAL RESIDENTIAL MARKETS**

International House Prices (Inflation-adjusted, y/y % change)													
	2008	2009	2010	2011	2012	2013	2014	2015	2016	16Q3	16Q4	17Q1	17Q2
Australia	-0.3	2.2	8.5	-5.3	-2.1	4.1	6.4	7.4	4.2	2.2	6.1	7.9	---
Canada	1.4	-3.2	6.2	0.9	2.4	1.8	3.4	4.9	11.2	13.4	13.4	15.0	16.2
France	-1.9	-6.3	3.2	3.6	-2.4	-2.7	-2.1	-1.5	0.9	1.1	1.5	2.1	---
Germany	0.4	-0.7	-0.6	0.5	1.0	1.7	2.2	4.3	5.5	5.9	5.4	3.7	3.5
Ireland	-11.6	-15.7	-12.4	-18.9	-13.4	3.0	16.9	8.3	6.5	7.5	7.9	9.1	---
Italy	-0.7	-1.3	-2.9	-2.0	-5.7	-6.9	-4.6	-2.6	-0.7	-1.0	-0.5	-1.4	---
Japan	---	27.2	2.2	0.3	-0.8	1.3	-1.2	1.6	2.3	2.3	2.2	3.7	---
Spain	-5.3	-6.3	-3.5	-10.5	-16.8	-10.4	0.5	4.1	4.8	4.2	3.4	2.5	---
Sweden	-2.3	3.5	6.8	-0.4	0.3	5.5	9.6	13.2	7.6	6.0	5.0	5.1	---
Switzerland	0.9	6.2	4.2	4.2	5.2	4.2	1.8	3.1	1.6	1.5	1.5	1.2	1.5
United Kingdom	-7.8	-10.8	2.3	-5.7	-2.3	0.0	6.5	5.9	6.3	5.9	4.1	2.3	2.2
United States	-18.3	-9.7	-2.8	-5.8	2.6	8.4	4.8	5.4	4.0	4.1	3.5	3.6	---
Russia	9.1	-10.9	1.3	-27.0	9.5	-2.7	-6.0	-12.3	-11.6	-11.3	-9.3	-8.4	-7.6
Brazil	15.8	19.4	19.0	11.6	6.1	2.8	0.2	-8.0	-10.4	-10.4	-9.0	-7.1	-5.9
Chile	-8.9	1.5	6.0	2.0	2.3	6.2	1.8	4.3	-0.7	-3.5	-0.6	---	---
Colombia	9.3	4.9	5.4	4.2	7.2	7.6	4.9	4.5	4.5	3.2	5.2	2.7	---
Mexico	-0.5	0.1	-0.3	0.8	0.7	0.0	0.4	3.8	5.1	5.8	4.0	0.2	---
Peru	20.7	14.0	9.3	13.2	17.5	13.7	9.2	2.6	2.4	1.2	3.1	-7.5	---
China	0.2	1.9	5.4	-1.2	-3.2	3.2	0.6	-5.2	4.5	6.2	8.6	9.2	---
India	---	---	8.5	11.3	15.5	7.8	7.8	8.3	1.6	2.4	4.4	6.7	---
Indonesia	-7.7	-2.7	-2.2	-0.7	0.6	5.3	0.6	-0.8	-0.4	-0.3	-0.9	-1.0	---
South Korea	-0.6	-2.5	-0.5	1.2	0.7	-1.7	0.2	2.6	1.7	1.3	0.0	-0.8	-0.7
Thailand	---	6.1	-0.5	0.5	0.3	5.5	3.8	3.5	1.2	1.1	-1.1	-1.8	-3.2

Sources: Scotiabank Economics, Bank for International Settlements



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